From Dictatorship to Democracy

The Business-State Nexus in Chile's Economic Transformation, 1975–1994

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Since the end of the 1980s there has been a growing consensus among policymakers that economic stabilization, privatization, liberalized markets, and an export-oriented economy are the keys to economic revitalization in Latin America. This consensus emerged from the resolution of two heated debates: the role of the state in capitalist, developing economies and the merits of inward versus outward oriented development models. Policy prescriptions now emphasize a retreat from the state's traditional developmental role in favor of market signals for the efficient assignation of resources among private actors in open, export-oriented economies. The state's main function should be to create and maintain the institutional setting and procedural rules that allow markets to function efficiently, such as those that produce fiscal and monetary stability, predictable foreign exchange rates, the definition of property rights, nonpredatory rules of competition, and basic rules for managing labor relations.[1] Above all, it should refrain from engaging in industrial policy, public enterprise, and countercyclical policies. On the strength of these prescriptions the ravaged economies of Argentina, Bolivia, and Mexico have recovered a measure of stability in the early 1990s.

Chile has served as a model for these, and other, countries because it blazed the trail in the mid 1970s and 1980s. After serious setbacks, it developed a stable and robust open market economy in the second half of the 1980s, a time when the economies of many Latin American countries were rapidly deteriorating. Not surprisingly, policymakers now look to Chile's experience for suggestions regarding the right mix of policy instruments, their sequencing, and the timing required for successful neoliberal economic restructuring.

This paper argues that analyses of the Chilean case have overlooked an important aspect of its economic restructuring process that has broad comparative implications for Latin America and elsewhere. Most studies conclude that a strong dictatorial state and a cohesive group of technocrats sufficed to craft and implement successful reforms. However, there was a closer interaction between policymakers and business groups than is generally asserted.[2] Shifts in the structure of this interaction and changes in the composition of the business groups and policymakers involved are necessary factors in explaining Chile's economic transformation. A comparison across three policy periods in Chile—two during the dictatorship and one in the contemporary democratic period—shows that, among other factors, the initial form of interaction between business and the state had negative impacts for investment and production. Subsequent forms were more beneficial. The form of the relationship had differential impacts on business confidence, which contributed to investment and production decisions and affected the quality of economic growth.

To the extent that Chile serves as a model for other countries, these findings have significant comparative implications. First, Chile suggests that an excessive degree of state autonomy may be dysfunctional for economic liberalization. Isolation is not necessarily conducive to good policy. Second, it offers some hypotheses with respect to how different forms of interaction between policymakers and business groups affect investment and production and hence the outcome of economic liberalization. Finally, it highlights the importance of the business-state nexus, which the literature has largely ignored. By no means do I wish to imply that other factors, such as the degree of financial controls or policy failure and learning, are insignificant. However, they have been amply treated elsewhere.[3]

The State-Business Nexus and Economic Policymaking

The extent of state involvement in society lies at the heart of debates over economic development. Beginning in the 1930s, modernizing political elites, bolstered by theory, sought to build developmental states: states that played a strong role in shaping economic development.[4] In Latin America, international shocks, market failures, and the timing of industrialization led to the adoption of an economic development strategy of import substitution industrialization (ISI). Given the paucity of private domestic savings, the strategy also stressed the state's role as a source of investment and the introduction of increasing market regulations in response to emerging bottlenecks.

Criticizing the economic inefficiencies caused by market distortions and the politicization of public bureaucracies, a (neo)liberal approach to the relationship between the state and the economy stressed market allocation of resources.[5] In this view, the hypertrophy of the state was one of the main problems. Its industrial policies and exaggerated protectionism distorted markets and inhibited investment; public enterprise crowded out private initiative. Moreover, it was inefficient and corrupt and fueled fiscal deficits that fed inflation; financial markets were stunted. The solution stressed monetarist policies to stabilize the economy and to control fiscal spending and inflation, as well as open, export-oriented economies, privatization, the creation of private financial markets, and strict discipline with respect to fiscal outlays. All these policies implied a dramatic retreat of the state from its direct involvement in the economy, as well as a drastic reduction in the size of the public sector.[6]

Historically, both the "statist" and the "market" sides of the debate emphasized policy prescriptions that concentrated almost exclusively on the proper functions of the state for healthy economic development. Moreover, depending on the period, after either the statist or the market forces had "won," policy debates focused on the design of the correct policy instruments and the fine tuning of the sequence and timing of their introduction. Discussions and analyses rarely, if ever, considered the promotion of interaction between state actors and the private sector to be an important condition for the success of their projects. To the contrary, both sides thought that the two should be kept apart. From the statist point of view, domestic capitalists are a stunted, backward class, incapable of carrying out economic modernization on their own.[7] From the market perspective, bureaucrats do not understand markets and inhibit private initiative, without which there can be no rapid, sustained development.[8]

These views, however, obscure the fact that in both market and mixed economies good policy design by itself does not necessarily lead to optimal results. Much depends on how businessmen react to the signals government officials send: whether they invest and what they invest in.[9] In some measure the result hinges on the quality of the relationship between businessmen and state officials. Where it is mired in bitter antagonism, no policy design, no matter how correct, will elicit the desired response from capitalists. By the same token, if the relationship is too cozy, it may degenerate into collusion and an inefficient allocation of scarce resources through corruption.[10] The relationship between businessmen and state officials is crucial for investment and production because, among other factors, it influences the private sector's confidence to commit resources. Business elite participation in the agenda setting, formulation, and implementation stages of the policy process enhances its belief that the policies will actually work. That is, to the degree to which business is involved in the policy process, it will trust that solutions to thorny policy problems will be reasonable.

This argument reveals that, although neoclassical economists in reality pay attention to the question of investor confidence, they conceive it too narrowly. In their view, the maintenance of sectorally neutral policy instruments over time and, for monetarists, an emphasis on economic management through monetary manipulation alone will stimulate investor confidence. This conceptualization, however, still privileges technocratic roles isolated from the wider social context. As long as economic policymakers send the right market signals, they will be able to stimulate investor confidence in a country's economic future. Collaboration between the policymakers and the private sector is not necessary; indeed, it may be detrimental. Thus, we are back full circle, and the problems pointed out earlier with this position still apply.

More recently, analyses of Latin American political economy have begun to recognize the importance of the issue of the business-state nexus in a general way. For example, Stephan Haggard and Robert Kaufman have noted that market-oriented economic restructuring seems to have better results when the private sector is consulted on policy changes, as was the case in Mexico and Argentina.[11] Ben Ross Schneider has examined patterns of elite circulation between the bureaucracy and private sector.[12] By the same token, Rosemary Thorp concluded that close interaction between business groups and policymakers contributed to consistent and effective policy solutions in Colombia, whereas their absence was a factor in policy instability in Peru.[13]

These studies suggest a need for a sharper focus on how, among other factors, different forms of business-state interaction encourage or inhibit investment in production. Closer attention should be paid to the characteristics of business organization, both associations and firms, on the one hand, and state institutions, on the other. Greater concern for the interaction between them in the policy process, whether personalist or institutionally based, may also be needed. These factors seem important for the construction of what Peter Evans calls "embedded autonomy."[14] For development policies to be effective, state institutions and their officials must possess certain characteristics to avoid undue influence by particularistic influences in the policy process, beginning with the setting of development goals. Yet, if they are too isolated from businessmen, they are likely to err in policy design, and the expected investment by business to implement the policies may not be forthcoming. In other words, dense networks of communication with the private sector provide important information on what policies capitalists are likely to find workable. In short, relatively insulated state economic policymakers are "embedded" in a web of connections with capitalists. Bureaucrats set policy formulation, but consultation or collaboration with capitalists in policy formulation and implementation also occurs. Consultation or collaboration improves policy design and boosts investor confidence. State economic policymakers watch over the general interests of the economy, while businessmen provide operational knowledge of likely policy effects.

In terms of institutional arrangements, Chile suggests that a tight, hierarchical state structure and encompassing business peak associations are functional for investment-inducing interaction between large-scale capital and policymakers. A well-ordered hierarchy among ministries contributes to coherence in the policy process because it controls the delegation of authority from a lead ministry to others. The lead ministry, in Chile the ministry of finance and the central bank, acts as a gatekeeper. A hierarchical system of ministerial authority also reduces the "porosity" of state institutions to particularistic interests. Effective levels of influence over policymaking, particularly in agenda setting and policy formulation, are more tightly circumscribed. By the same token, encompassing peak associations backed by the nation's leading business concerns provide an arena for aggregating the interests of large-scale capital and forming business policy coalitions that participate in the agenda setting, formulation, and implementation stages of the policy process. This function is particularly important during periods when a nation is designing a comprehensive policy of economic restructuring to overcome a deep economic crisis. Once the basic policy outlines are set, their participation in agenda setting may not be necessary, as evidenced by Patricio Aylwin's administration's decisions to raise taxes on business and revise the labor code. It consulted with business organizations in policy formulation in order to assure smooth and effective policy implementation.

Among other factors, the interaction between business and state officials contributes to investment in production through a dual process that builds confidence that policy will address the needs of the economy and of the firms in various economic sectors.[15] Since 1984, with access to the policy process, Chilean businessmen have felt confident that solutions to national economic problems would not be at the expense of their interests. Policymakers have benefited in policy design. They get a much better idea of how business elites will react to a policy, as during Chile's last seven years of military government. Such interaction has also helped smooth a potentially conflictual relationship during the new democratic period between business and the political opposition to the dictatorship which it once vilified but that now governs.

Chile also offers an interesting contrast with newly industrializing countries in East Asia with respect to the characteristics of bureaucracy necessary for a fruitful relationship between business and the state. Recent studies of East Asia strongly drive the research agenda on the connection between state officials and business.[16] Peter Evans, Alice Amsden, Frederic Deyo, and Robert Wade, among others, have all noted that a close relationship between state officials and business was a key element in rapid growth.[17] They had a keen interest in showing that the developmental state was not by definition dysfunctional, as neoliberal theory argued.

The Chilean "model," although different from East Asia, suggests that the basic idea of "embedded autonomy" also applies to countries that are dismantling developmental states and replacing them with liberal ones. Interaction between policymakers and capitalists in processes of neoliberal transformation are important for investment and production and thus ultimately for the quality of economic growth. It is particularly important for countries like Argentina and Mexico that are grappling with the problem of how to induce their own private sectors to invest in production rather than to rely so much on volatile international financial flows for their stabilization programs.[18]

The Business-State Nexus in Chile, 1975–1994

Three periods of Chilean political and economic history will be compared with respect to the forms of interaction between business and the state. How did they, among other factors, contribute to patterns of investment and production? This internal comparison sharpens the focus on these factors because it controls for general background variables. For example, the contrast between the radical neoliberal policy period (1975–82) and the pragmatic neoliberal phase (1983–89) brings into sharp relief the significance of shifts in business-state relations for investment and production. Both policy periods took place within the same political regime, the military government of Augusto Pinochet. The final policy period (1990–94) highlights the importance of key elements of continuity in business-state relations in the transition from dictatorship to democracy. These continuities clearly moderated what might have become a conflictual relationship between long-repressed political elites and a business community that, for historical reasons, was highly suspicious of their intentions.

Business-State Networks under Radical Neoliberalism, 1975–82 After the overthrow of socialist Salvador Allende in 1973, Chile's military government implemented a neoclassical economic restructuring program in which policymakers replaced the instruments of state intervention with the market. These policymakers believed that markets allocated resources far more efficiently than bureaucrats and that markets disciplined economic agents to become more productive. They also assumed that neutral, across-the-board policy instruments worked better than industrial policy and discretionary state powers.[19] This neoliberal economic restructuring took place over three distinct policy periods in authoritarian Chile: gradual, radical, and pragmatic.[20] Due to space constraints the first, gradual period will not be examined. For the same reason, discussion of nuances and the role of other factors must be sharply limited.

Between 1975 and 1982 Chile experimented with radical neoliberal policies in the construction of a liberal economy and society. These policies included draconian economic stabilization programs (shock therapy) and the rapid, thorough liberalization of capital markets, prices, and trade with little regard for their effects on industrial and agricultural sectors that had difficulty adjusting. The introduction of a fixed exchange rate in 1979 became the centerpiece of a system of automatic economic adjustment, after which the top policymakers believed that their main role would be to act as gatekeepers against interest groups that wanted to change the rules of the game.[21] Market logic also informed social policy in the new labor code and the privatization of health insurance and pensions.[22] It was believed that unwavering adherence to policies would eventually induce investor confidence in the economy by reducing risk to businessmen.

Yet these policies did not do much to stimulate investment in productive enterprises despite the fact that between 1977 and 1981 Chile experienced an unprecedented influx of foreign savings. For example, Chile's external debt rose from 5.8 to 15.7 billion dollars, and the share going to private debtors increased from 22 to 64 percent.[23] Yet during the best year, 1981, investment rose to only 19.5 percent of GDP, not quite the 20 percent average of the 1960s.[24] Meanwhile, industry's share of GDP declined from 24.6 percent in 1970 to 21 percent in 1981. An index of industrial production (1980 = 100) showed that at 94.4 in 1979 it barely surpassed the 1970 level of 90.5. During the same years, the share of agriculture dropped from 8.2 to 7.5 percent, while the commercial and service sector, especially financial services, expanded.[25] By the same token, imports rose sharply, especially in finished and intermediate industrial goods.[26] Most telling, nonmineral export performance was also not stellar, further reflecting a relative lack of investment.[27]

After 1979, in a period of high international liquidity, the fixed exchange rate (which made the dollar very cheap) along with rules that stimulated dollar indebtedness encouraged financial speculation, commercial exchange, and real estate over productive investment, although for a brief period Chile's economy boomed. In 1982, however, Chile's unregulated and immature markets broke down. A deep economic depression engulfed the nation as GDP shrank by 14 percent in 1982, the financial system collapsed in 1983, the largest conglomerates were broken up when their holding companies went under, and unemployment climbed to 25 percent and eventually to over 30 percent of the work force.[28] Investment plunged to 12.9 percent of GDP in 1983, even as the public share climbed from 26 percent in 1981 to 37 percent. The industrial production index plummeted from 100 in 1980 and 1981 to 85 in 1982.[29]

A substantial literature covers the economic reasons for this economic debacle. It focuses heavily on mistakes in the use of specific policy instruments, such as the combination of a lack of financial controls with an overvalued currency.[30] However, the structure of interaction between policymakers and top capitalists also affected the outcome. The evidence suggests that damaging policies may result when a highly autonomous state overinsulates ideologically rigid technocrats with organic links to a narrow range of business interests operating outside the confines of business peak associations. These characteristics can lead to harmful policies, policies too skewed for healthy economic growth that, in Chile at least, ended in economic disaster. The contrast to investment and growth patterns in the following policy period, within the same military government but with a different system of collaboration between business and policymakers, is instructive: productive investment as a percentage of GDP increased steadily.

What were the characteristics of the system of interaction between the public and private sectors between 1975 and 1982, and how did it contribute to economic problems? To begin with, a highly autonomous state—Pinochet's system of one man rule—insulated key policymakers from virtually all pressure groups.[31] By giving his ministers unconditional backing in the context of a highly repressive authoritarian regime, he shielded them from reaction to their unpopular economic policies. The military government also concentrated economic decision making in government financial institutions, the ministry of finance and the central bank, thus further reducing points of access for business interest groups. It also diminished the capacity of other ministries to contest the decisions of key policymakers and made it virtually impossible for ministers to use their locus of authority as a springboard to create clientelistic followings.

The characteristics of the economic policymakers themselves were also significant. They were not elite career bureaucrats in a meritocratic system, as they tend to be in the more successful *dirigiste* or developmental states. Instead, they were a cohesive team of highly ideological technocrats from civil society schooled in neoclassical economics—the so-called Chicago boys because many had studied at the University of Chicago in the 1960s.[32] Given their training, they possessed a distinctive and rigid vision of policy goals and instruments. In the context of a highly autonomous state, this inflexible, ideological textbook approach led to economic restructuring policies that showed no mercy for threatened economic sectors and emphasized financial intermediation and real estate over investment in production.[33]

Many of the key Chicago boys were linked to a narrow range of new internationalist conglomerates that tended to concentrate their holdings in financial intermediation, trading firms, and companies that were import competitive.[34] Between 1974 and 1978 the two largest, Cruzat Larraín and BHC, gained control of over 37 percent of the assets of the 250 largest Chilean firms. By contrast, the next two largest, Matte and Luksic, controlled just 12 percent. Moreover, by the end of 1977 Cruzat-Larraín and BHC alone controlled 40 percent of private sector banking assets and almost 30 percent of *financiera* credit.[35]

Key economic ministries and institutions, such as finance (top of the hierarchy), economy, the central bank, and the budget office, were headed by men who had close ties to the Cruzat-Larraín, BHC, and Edwards conglomerates. These linkages gave the top directors of these internationalist conglomerates, especially Cruzat-Larraín, privileged access to policymakers.[36] This access allowed them to discuss policy reforms with the policymakers.[37]

In short, the directors of these internationalist conglomerates participated in setting the policy agenda and in policy formulation. This participation gave them insider information regarding key decisions, such as the timing and characteristics of financial liberalization policies. With access to international credit in a country starved for capital, this knowledge allowed them to set up financial intermediation firms before other, more traditional economic groups. They were thus able to buy public assets that were being privatized before them. In other words, the privileged access of conglomerate executives in the policy formulation stage helped them to play a vital role in policy implementation as well. Their aggressive strategy of corporate expansion at the expense of more traditional business groups promoted the rapid growth of economic sectors in which Chile had comparative advantages, which in turn led policymakers to believe that rapid growth and drastic market economic restructuring could go hand in hand. The "right breed" of new entrepreneurs was responding aggressively to the new policies. As soon as the rest followed their example, all would be well.

Ultimately, however, the activities of the new conglomerates were damaging to economic stability because they based their phenomenal expansion on highly leveraged buyouts and because they emphasized profiting from financial intermediation and real estate over investment in production. The conglomerates were organized around flagship industrial firms and financial institutions that captured the lion's share of domestic and international savings. A substantial amount of the savings they captured financed their own acquisitions policy as well as operating costs.[38] These tactics worked as long as there were no major shrinkages in international liquidity and as long as international interest rates remained reasonably low.[39] When these conditions changed after 1980, economic disaster struck Chile. Studies have shown that overindebtedness was the major reason for the wave of bankruptcies that swept Chile in the early 1980s.[40]

The increase in international interest rates and the fall of loanable funds to Latin America hit the new, aggressive financial conglomerates hard. Because they had built their expansion on debt, they had to capture an even higher proportion of available credit to keep from going under in the early 1980s. As a result, they began to drive up interest rates even more in an effort to crowd out competing borrowers and made it impossible for policymakers to control rates. Meanwhile, in the rest of the economy firms began to go under as interest rates climbed beyond what they could afford. The financial institutions of the larger conglomerates were no longer solvent either, but they kept on borrowing from themselves to stay afloat as they crowded others out of the credit markets that they controlled. The government finally put them into receivership in early 1983.[41] In one fell swoop the military regime unwittingly found itself in control of a large portion of Chile's largest and heavily debt-strapped companies, as the nation's financial sector collapsed.

In addition to contributing to policy design, the system of interaction between business and the state during this policy period affected investment patterns because of differentials in the level of confidence about the business climate among business groups. It infused some groups with confidence in the future and left others confused and disoriented. Businessmen connected to the conglomerates with access to the policymaking process had insider knowledge and thus confidence (but not certainty) that they could gain a competitive edge over more established Chilean business groups.

The more traditional, established conglomerates and the leaders of the business associations, however, did not follow suit. They were not in the loop. They did not know the direction policy would take. They reacted to policy decisions with caution and uncertainty, often to find themselves at a competitive disadvantage to the new conglomerates that bought up their assets whenever possible. Some, particularly traditional landowners, actively opposed the policies until 1978.[42] Under these conditions, as they so often protested, they were not likely to invest. After 1979 the policymakers' commitment to opening the economy, the fixed exchange rate, and the sudden surge of available credit convinced the rest of the private sector that the time had come to stop resisting and to join in.[43] By then, the model of success and style of competition for firms had been set by the "new, modern entrepreneurs." Many who followed in their path came to grief.

Business-State Networks under Pragmatic Neoliberalism, 1983–88 In the final analysis, among other factors, Chile's economy did not prosper under a highly autonomous state that was coupled with a small cohesive group of inexperienced ideological technocrats drawn from civil society with a narrow network of contacts to the executives of conglomerates to which they were linked. In 1984 Chile's economy began to recover under a much more flexible approach to the construction of a liberal economy, dubbed "pragmatic neoliberalism" by Chileans. Policymakers in the financial institutions still preferred neutral policy instruments. But they acknowledged that the state also had a duty to intervene in markets, particularly to stabilize prices and boost domestic production, albeit with the most market-friendly instruments available. Thus, the government controlled financial markets more and insured that real exchange rates remained high, interest rates were reasonable, agricultural and mining activities were protected by price floors, and manufacturers received protection from unfair external competition as well as incentives to export.[44] Yet price supports and other sectoral policies were set at levels that provided a minimum of protection to keep businesses from succumbing to predatory international competition. Thus, Chile's basically liberal economy sets relatively high performance standards for industry.

State structure remained virtually unchanged during this policy period. Pinochet retained his system of one man rule, and the hierarchy of ministries and their authority essentially persisted. Thus, this second policy period suggests that a different system of interaction between capitalists and policymakers can have a positive impact on investment and economic growth in a developing, liberal economy.[45]

On the state side, the system of interaction now featured a mixture of experienced, well-trained career bureaucrats in financial agencies which still stood at the apex of the hierarchy of economic bureaus. Between 1984 and 1985 some businessmen occupied the top positions in the financial and economic ministries. The available evidence suggests that Pinochet appointed them to recover the loyalty of business elites and to keep an industrial fraction from joining the moderate opposition. However, after Chile's economy and political upheaval stabilized in 1985, the top economic policymakers of those principal agencies were almost exclusively drawn from the ranks of experienced, technocratic, flexible civil service officers. As in the previous policy period, they set general policy guidelines, which continued to emphasize economic liberalism. Beneath them, however, prominent businessmen headed the sectoral ministries—industry and commerce, agriculture, mining, and public works.[46] They were motivated by a mixture of international and domestic market oriented economic interests.[47] Thus, it was unlikely that they would consider policy proposals that zealously pursued one activity to the exclusion of others. Moreover, these ministers were not as closely linked to specific conglomerates as their predecessors in the previous policy period.

The ministers maintained fluid channels of communication with cohesive and highly representative business peak associations at two levels. First, the umbrella organization of large-scale business associations (the Confederation for Production and Commerce, CPC) routinely discussed exchange rate, interest rate, and general monetary policy with the minister of finance and the central bankers.[48] Second, sector-specific peak associations participated in the formulation and implementation stages of the policy process in close contact with the ministries in charge of their sector.[49] At both the general and sector-specific level, then, the public and private sectors for the most part negotiated on the basis of technical criteria rather than personal favors, clientelism, or political threats.

Other studies have analyzed how this system of intermediation arose during the crisis of the military regime in 1983–84, when mass mobilization and economic depression threatened the stability of Pinochet's rule.[50] The point here is to show that the existence of the CPC, an encompassing peak association of sectoral business organizations, was important in forging a policy alternative to radical neoliberalism. After it had done so, the military regime entered into a system of negotiation with the CPC and the sectoral organizations over the proposed policies.

During the 1982–83 economic crisis, with the collapse of the previous economic model, the leadership of the CPC sponsored a series of meetings to formulate an alternative policy package to counter the radical Chicago boys. This leadership consisted of the presidents of the six sectoral business organizations. Their organizations effectively represented the interests of Chile's large-scale businessmen. In charge of their directorships were the top managers and agents of Chile's largest corporations, many of them linked to important conglomerates. Surmounting sectoral differences, they hammered out a consensus over a national economic policy that would stimulate investment and economic recovery. It included a commitment to an open market economy, high real exchange rates, and low interest rates to stimulate exports and domestic production. They also advocated countrycyclical deficit spending to stimulate the economy, as well as some specific sectoral policies that fit within the framework of the general policy.[51] Under the leadership of Modesto Collados, president of the construction chamber and later finance minister, each sectoral business organization put together detailed plans for policies that would stimulate investment over a three year period.[52]

Thus, once the military government sacked the Chicago boys, the new ministers and their economic teams worked hard to correct previous policy errors. However, they worked closely with the CPC and the sectoral peak associations on the basis of their plan for economic recovery, which moderated but did not overturn the radical neoliberal approach. All of their proposals departed only moderately from orthodoxy in ways the business community felt would stimulate investment and production. During this period, the CPC's main role was to keep the policy consensus among the sectoral organizations from disintegrating, to make sure that sectoral interests did not act against the general outline of market transformation. Unity was important because major lobbying initiatives had to be conducted in the name of the CPC, not individual sector organizations. Otherwise, technocratic policymakers dismissed them on the basis that narrow, selfish sectoral interests were attempting to undermine the general good. After the CPC negotiated major points on the agenda with policymakers, the sectoral associations worked closely with their respective ministries to hammer out detailed policies, as with draw-back rules for industry, housing projects for construction, and price floors for agriculture and mining. This approach presupposed a high technical capacity among the sectoral associations. They had to justify their petitions with detailed economic modeling of their proposals and the expected impact on investment and production.[53]

This new system of interaction between policymakers and business elites contributed to the adoption of policy instruments that facilitated economic recovery after the 1982–83 debacle. Without the benefit of international liquidity and despite the need to repay external obligations, overall investment rose steadily from 17 percent of GDP in 1986 to 20 percent in 1988. After a reflationary surge of public investment to 49 percent of total investment in 1986, it declined to 34 percent in 1989, the last year of the military government, and 32 percent in 1990, the first year of the democratic government. Industrial production indexes rose to higher levels at a higher rate than from 1975 to 1982. By 1986 the general index already exceeded the level of 1981, the best year of the previous period. By 1989 it was thirty-six points higher than in 1981. During a period of low international inflation, exports surged significantly more than before. Agricultural and sea product exports expanded by 100 million to 150 million dollars each year. Industrial exports rose by two-thirds from their peak in 1980.[54] These exports were strongly tied to agribusiness and timber.

These figures underscore the fact that much of the post-1983 investment was in productive enterprises in agriculture (packing companies) and industry and was oriented toward both international and domestic markets (timber, fishing, manufacturing, communications). The financial sector recovered its health but no longer overshadowed other activities. A substantial portion of foreign investment went to joint ventures with the holding companies of Chile's largest and best established surviving conglomerates, particularly in timber, agriculture, and fishing ventures.[55] All of these factors strengthened Chile's robust economic expansion at an average GDP growth rate of about 8 percent to 1988.[56]

The private sector's participation in the policy process contributed to the emergence of investment-enhancing policies. Not only was the policy design "correct," but business inclusion in the policymaking process also increased confidence that the proposed policies would actually work. Close interaction with government officials then buoyed its trust in the nation's economic future. Interview data suggest that these two conditions gave it the confidence it required to commit its resources in productive investment. The president of the CPC during this period provided a representative statement, repeated many times by others. "Hammering out a consensus within the CPC was a difficult process. But once completed, we knew that these policies would stimulate production, not the financial speculation of the past. Once the authorities began to listen to us, our hope in the future rekindled. Although we don't get everything we want, we can trust the rules of the game that emerge. As long as they remain stable, they encourage us to invest."[57]

Business-State Networks in Democratic Chile, 1990–1994 The center-left democratic opposition bloc that took over the government in March 1990, the *Concertación de Partidos por la Democracia*, had long pledged its commitment to the development of a liberal economy and society in Chile during the transition to democracy. It explicitly promised not to tamper with the general economic model—pragmatic liberalism—developed during the last years of the dictatorship.[58] Yet, since it had been the opposition during the dictatorship, the *Concertación* faced the problem of convincing investors that it was sincere. Its problem was how to maintain investor confidence and avoid an antagonistic relationship with businessmen.[59]

Its solution was to establish a system of close interaction—consultation—with the business peak associations whenever the new administration wished to introduce changes in the pragmatic neoliberal model as established under Pinochet. This approach fundamentally applied to tax and labor code legislation that the administration of Patricio Aylwin wanted to pass in the interests of making economic growth compatible with more social equity. But it also included discussions of more sector-specific problems as they arose.[60] This system was integral to the *Concertación*'s "consensus" politics.

Although the system of interaction was not institutionalized, top policymakers regularly consulted and negotiated with the leadership of business peak associations on major economic policy issues from the policy formulation stage on down. As previously seen, the main agenda had already been set with the participation of business elites under Pinochet. The new authorities had taken it upon themselves to set an agenda for changes at the margin. Taxation and labor code policies were among some of the major initiatives on the table and thus subjects for consultation with business leaders.

The Aylwin administration proposed legislation for a tax on corporate earnings and increases in the value added tax (VAT) in order to fund greater spending on social programs. It was widely believed that the private sector would resist the measure and find it to be a disincentive to investment. To overcome these difficulties, top policymakers of the ministry of finance consulted closely with the CPC as well as with the major conservative party in congress, *Renovación Nacional* (RN), in the policy formulation stage. The government primarily sought ways to assure the business community and RN that proposed taxes would not harm anyone or be "confiscatory." The exchange of information revealed that a tax on profits of between 10 and 15 percent should not dampen investment, given the high profitability of most Chilean firms. To overcome suspicions over government use of the revenue, policymakers built in sunset clauses and tied the new revenue to specific programs. While some businessmen, notably industrialists, remained unhappy over the measures, the taxes were not so onerous as to induce capitalists to use their "veto" power.[61] Investment and production did not abate.

Reform of the labor code involved a similar, albeit more drawn out, process. The government wanted to equalize labor-management relations.[62] Reform involved key issues such as job security, collective bargaining, and unionization rights. From the outset, the labor ministry involved the CPC in the policy process. Policymakers passed draft legislation to the CPC, then held a series of meetings with top business leaders to discuss their observations. As a result of these meetings, the government began to moderate what the business community felt were excessively prolabor elements of the bill.[63] The government compromised most on collective bargaining and unionization rights.[64] It was a bit more successful with respect to job security measures such as severance pay and increased protection from dismissal, due partly to the fact that policymakers possessed detailed impact studies which they shared with business organizations. These studies showed that such measures would not substantially raise costs for firms. When conservative think tanks came up with the same projections, the business community relaxed.[65]

So far we have examined the willingness to compromise that resulted from closer interaction between policymakers and business elites. What were some of the characteristics of the top policymakers and the business peak associations that helped to reduce tensions between business and the *Concertación*? Policymakers changed in some ways from the days of pragmatic neoliberalism under the military government. The top ranks were no longer composed of a combination of career bureaucrats and businessmen. Instead, most were highly trained economists from think tanks linked to the major political parties that formed the opposition bloc.[66] Thus, having businessmen in the cabinet is not absolutely essential for investor confidence in Chile. However, according to both government officials and business leaders, a commitment to building a liberal economy and society, along with technical capability, are crucial. Flexibility in policy stance after feedback on policy proposals is also important.[67]

By the same token, the existence of an encompassing peak business association, the CPC, facilitated interaction with top policymakers on policy measures that affected the whole business community. The CPC acted as a filter that allowed only the most central and crucial points of divergence to emerge for discussion. This filtering facilitated negotiation and resolution of disputes. The CPC also promoted consensus within the business community with respect to proposed policy. In the end, individual sectoral organizations may not have been happy with some of the results, but none was so disgruntled that it began to disinvest or sought to affect policy independently. Of course, on sector-specific issues policymakers dealt directly with the appropriate business organization.

How did the authorities and capitalists participate in the policymaking process? Top policymakers set the agenda for incremental changes. After their technical commissions drew up draft legislation, it was circulated to the appropriate peak association. For each initiative the business organizations formed a technical commission to study the proposal and make observations. Policymakers and business leaders then negotiated on the basis of these reports. The exchange of information on the basis of technical evaluations facilitated accommodation.[68]

This arrangement has contributed to impressive economic results. Investment, reported at 25 percent of GDP in 1992, continued to flow into the country, and the economy has enjoyed sustained high production rates and export figures, contributing to high aggregate growth figures of around 7 percent per year since 1986.[69] As for 1984–89, interview data with business leaders suggest that the system of interaction between business and policymakers instilled enough confidence in the private sector to invest. Easy access to the executive branch, its flexible attitude, and a commitment on the part of the *Concertación* to do what was necessary for growth with low inflation bolstered trust among capitalists that the *Concertación* indeed intended to keep its promise to adhere to the main tenets of pragmatic neoliberalism. In virtually every interview business leaders acknowledged that this system allowed them to alter proposed legislation in ways that favored their interests.[70]

This finding is especially significant because the relationship between business and the *Concertación* is not harmonious. For capitalists, policymakers are part of a political bloc tied to a "statist" past who have to prove their capacity to maintain a good business climate. Business leaders are on their guard, ready to challenge deviance and defend the gains made during the dictatorship. In public debates it sometimes seems that the relationship is highly conflictual.[71] However, interviewees were careful to point out that underneath the occasionally belligerent public stance private negotiation with the authorities was fruitful. They complemented the policymakers' technical capacity and their ability to learn from the interaction how to design effective policy instruments. In short, they began to trust in the *Concertación*'s readiness to compromise, perhaps not on all issues, but on enough to keep business from rebelling and engaging in investment strikes.

For policymakers, interaction with business was also seen as crucial to calming the fears of investors. Through reiteration of the negotiation process—consensus politics—they hoped to prove to capitalists that they were technically capable of running an economy and of compromising with the private sector in the interests of maintaining a good business climate. They wanted to prove that democracy, and the *Concertación* in particular, did not pose a threat to them. No one's fundamental interests would be gored.

Conclusion

Much of the initial impetus for the study of the interaction between state officials and businessmen arose from analyses of the East Asian developmental states, especially Korea and Taiwan. There, analysts found states that played an important role in shaping the economy, carried out aggressive industrial policies, and in some cases favored public enterprise. Why were these states successful when developmental states in Latin America and elsewhere seemed to have failed? Analysts interested in showing that the state has an important part to play in economic development, beyond an arms-length role in setting the general rules of the game, set out to explain this puzzle. They hoped to show that bureaucracy was not inherently bumbling. With the right characteristics it could be devastatingly effective.[72]

As a result of this interest, analysts have begun to focus on the characteristics of bureaucracy that encourage effective policymaking and discourage collusion. These studies emphasize the formation of elite, meritocratic, professional career civil servants. Bureaucrats must also be careful to attach performance criteria along with subsidies to industry. These characteristics should promote efficiency.[73]

Aside from these characteristics, the same studies noted that close interaction between bureaucrats and capitalists was also a key component of the successful developmental state.[74] Bureaucrats should be highly autonomous from pressure groups in order to formulate industrial policy but not isolated from contact with the nation's largest conglomerates or encompassing intersectoral business associations. Contact with multisectoral conglomerates provided a window into policy design that cut across economic sectors. It also furnished potential allies in policy implementation, firms with investment capacity that can shift resources more easily than companies dependent on the health of a single economic sector.

The prescription for Latin America, however, has been to dismantle the developmental state, to forge liberal states with minimal involvement in the economy. At most, fiscal and monetary policy should be used to send general signals to private economic agents, who then take such action as they see fit. But industrial policy is to be avoided. Even the World Bank in recent years, however, began to realize that a minimalist, night watchman state needs to be an effective state. As a result, it has begun a campaign to promote an effective bureaucracy. The principle prescription is a meritocratic, technocratic career civil service.[75] But not much attention has been paid to the interaction between the state and capitalists in the liberal economies of developing nations. It is generally assumed that the state and the private sector each have their own spheres of activity; the less interaction between the two, the better.

The evidence presented here calls such assumptions into question. Chile is widely perceived as a model of neoliberal economic restructuring, yet the form of interaction between capitalists and policymakers clearly mattered for policy design, investment, and production. Chile suggests that liberal developing economies also require a state characterized by embedded autonomy. Of course, some of the specific features of embedded autonomy in liberal states will differ from those of developmental states.

Chile suggests at least two differences with East Asia. Because Chile has taken a liberal path to economic development, as opposed to one that requires more direct state intervention in the economy, some of the requirements for efficient bureaucracy in East Asia may not be strictly necessary. The successes of the latter are partially attributed to the formation of an insulated, meritocratic career civil service. In Chile, however, most of the top policymakers were political appointees, members of the parties of the governing coalition. Nevertheless, a deeper set of common factors emerges: intense professionalism and technocratic expertise. In Chile top economic policymakers had advanced academic degrees from elite, foreign universities. Their training and leadership functions in academically styled think tanks linked to political parties are the well-springs of their stance.

Moreover, Chile reveals something that is not discussed in the literature on East Asia but was crucial to the "success" of interaction between business and the state.

The business community "learned" how to negotiate with technocratic policymakers. One reason why government officials tended to ignore organized business in the first years of the military government was because sectoral peak associations attempted to lobby in the same way they had in the precoup period. Thus, technically relatively unsophisticated peak associations were perceived to be defending parochial interests in ignorance of their wider economic consequences. During the dictatorship, however, business organizations developed their own technical expertise by expanding their research departments and learning to speak a common technical language with professional, technocratic policymakers.

Finally, Chile suggests that negotiation with encompassing peak associations functions better in liberal economies than dealings with multisectoral conglomerates, as was the case in Korea. If the state is not directing the flow of investment, it appears that reliance on a few conglomerates sparks intense interbusiness competition which can lead to reduced investment . In liberal economies business sectors on the "outs" tend to withhold investment as they struggle for survival. Such withholding may be part of the investment problem in production in Argentina and Mexico. Both countries have managed to stabilize their economies, but on the basis of short-term financial flows. Both countries are still exhorting their private sectors to invest in production, but with little result. In both countries the available data reveal that policymakers have mainly interacted with the leadership of a few carefully selected conglomerates.

NOTES

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2. For statist views of policy outcomes in Chile, see Jeffry A. Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965–1985* (Princeton: Princeton University Press, 1991); Guillermo Campero, *Los gremios empresariales en el período 1973–1983* (Santiago: ILET, 1984).

3. See Barry P. Bosworth, Rudiger Dornbusch, and Raúl Labán, eds., *The Chilean Economy: Policy Lessons and Challenges* (Washington, D.C.: The Brookings Institution, 1994).

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Politics of Adjustment: International Constraints, Distributive Conflicts, and the State (Princeton: Princeton University Press, 1992).

5. See Alejandro Foxley, *Latin American Experiments in Neoconservative Economics* (Berkeley: University of California Press, 1983).

6. For policy prescriptions along these lines, see World Bank, *World Development Report 1991: The Challenge of Development* (New York: Oxford University Press, 1991).

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9. On East Asia see Ziya Önis, "The Logic of the Developmental State," *Comparative Politics*, 24 (October 1991), 109–26.

10. Ben Ross Schneider, "The Elusive Embrace: Synergy between Business and the State in Developing Countries," paper presented at the workshop on "The Role of Collaboration between Business and the State in Rapid Growth on the Periphery," Princeton University, October 8–9, 1993.

11. Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, forthcoming).

12. Ben Ross Schneider, "The Career Connection: A Comparative Analysis of Bureaucratic Preferences and Insulation," *Comparative Politics*, 25 (April 1993), 331–50.

13. Rosemary Thorp, *Economic Management and Economic Development in Peru and Colombia* (Pittsburgh: University of Pittsburgh Press, 1991).

14. Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," Haggard and Kaufman, eds., *The Politics of Economic Adjustment*, pp. 139–81.

15. Rosemary Thorp, in *Economic Management and Economic Development*, came to similar conclusions about Colombia.

16. See Sylvia Maxfield and Ben Ross Schneider, "The Political Origins of Rapid Growth on the Periphery: Bureaucrat and Capitalist in the Making of Modern Industry," conference proposal for the workshop on "The Role of Collaboration between Business and the State in Rapid Growth on the Periphery," Princeton University, October 8–10, 1993.

17. Evans; Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990).

18. See Sylvia Maxfield and Ricardo Anzaldúa Montoya, eds., *Government and Private Sector in Contemporary Mexico* (San Diego: Center for U.S.-Mexican Studies, 1987); and WIlliam C. Smith, *Authoritarianism and the Crisis of the Argentine Political Economy* (Stanford: Stanford University Press, 1991).

19. Joseph Ramos, *Neoconservtive Economics in the Southern Cone* (Baltimore: The Johns Hopkins University Press, 1986); Sebastian Edwards and Alejandra Cox-Edwards, *Monetarism and Liberalization: The Chilean Experiment* (Cambridge: Ballinger Publishing Company, 1987).

20. See Carlos Hurtado, *De Balmaceda a Pinochet: Cien años de desarrollo y subdesarrollo en Chile, y una disgresión al futuro* (Santiago: Ediciones Logo, 1988).

21. Foxley; Edwards and Cox-Edwards.

22. José Pablo Arellano, "Sistemas alternativos de seguridad social: Un análisis de la experiencia

chilena," *Estudios Cieplan*, 11 (December 1983), 5–49; Guillermo Campero and José A. Valenzuela, *El movimiento sindical en el régimen militar chileno, 1973–1981* (Santiago: ILET, 1983); Jaime Ruiz-Tagle P., *El sindicalismo chileno después del plan laboral* (Santiago: PET, 1985); Dagmar Raczynski, "Reformas al sector salud: Diálogos y debates," *Estudios Cieplan*, 10 (June 1983), 5–44.

23. Ricardo Ffrench-Davis, "El conflicto entre la deuda y el crecimiento en Chile: Tendencias y Perspectivas," *Estudios Cieplan*, 26 (June 1989), 61–89.

24. The composition between public and private shares of total investment changed significantly. The public share averaged 52 percent between 1960 and 1970 and 36 percent between 1975 and 1982. Nevertheless, increased private investment could not make up for the fall in the public share.

25. Berta Teitelboim, *Serie de indicadores económico sociales, 1960–1986* (Santiago: Programa de Economía y Trabajo, 1987).

26. Ffrench-Davis, "El conflicto."

27. Ricardo Ffrench-Davis, "Origen y destino de las exportaciones chilenas, 1865–80," *Notas Técnicas Cieplan*, 31 (1981); and Banco Central de Chile, *Boletín Mensual*, selected issues.

28. Laurence Whitehead, "The Adjustment Process in Chile: A Comparative Perspective," in Rosemary Thorp and Laurence Whitehead, eds., *Latin American Debt and the Adjustment Crisis* (Pittsburgh: University of Pittsburgh Press, 1987), pp. 117–61.

29. Cieplan data base, and Teitelboim, *Serie de indicadores económico sociales*.

30. For examples, see Philip L. Brock, ed., *If Texas Were Chile: A Primer on Banking Reform* (San Francisco: ICS Press, 1992); Edwards and Cox-Edwards.

31. Arturo Valenzuela, "The Military in Power: The Consolidation of One-Man Rule," in Paul W. Drake and Iván Jaksić, *The Struggle for Democracy in Chile, 1982–1990* (Lincoln: University of Nebraska Press, 1991), pp. 21–97.

32. Juan Gabriel Valdés, *La escuela de los Chicago: Operación Chile* (Buenos Aires: Grupo Editorial Zeta, 1989); and Patricio Silva, "Technocrats and Politics in Chile: From the Chicago Boys to the Cieplan Monks," *Journal of Latin American Studies*, 23 (May 1991), 385–410.

33. Foxley; Hurtado.

34. Eduardo Silva, *The State and Capital in Chile* (Boulder: Westview Press, forthcoming); see also Schneider, "The Career Connection."

35. Fernando Dahse, *El mapa de la extrema riqueza* (Santiago: Editorial Aconcagua, 1979).

36. They had either been executives or advisors or had been on the professional staff of the conglomerates before taking office, and most returned to them after government service. Ibid.; Silva. Significantly, these same conglomerates had organized business resistance against Salvador Allende in the Monday Club and collaborated with the military in the conspiracy to overthrow his government. See Philip O'Brien, *The Pinochet Decade* (London: Latin American Bureau, 1983).

37. Interview with Christian Democrat Juan Villarzú, budget director in 1974–1975, December 12, 1988. This view was corroborated by Andrés Sanfuentes, an early Christian Democratic civilian economic advisor to the military government in an interview, April 13, 1989. These and other interviews were conducted by the author in Santiago between 1988 and 1992. Institutional affiliations will be noted at the first citation.

38. Sergio de la Cuadra and Salvador Valdés, "Myths and Fact about Instability in Financial Liberalization in Chile: 1974–1983," in Brock, ed.

39. For the role of conglomerates in sucking up credit, see De la Cuadra and Valdés.

40. Alejandra Mizala, "Liberalización financiera y quiebra de empresas industriales: Chile, 1977–82," *Notas Técnicas Cieplan*, 67 (1985).

41. De la Cuadra and Valdés.

42. See Campero, *Los gremios empresariales*.

43. Interviews with Jorge Fontaine, president of the Confederation for Production (CPC) during this period of upheaval, Efraín Friedman, former director of the *Sociedad de Fomento Fabril* (SFF), Alfonso

Mujica, former director of the *Cámara Nacional de Comercio (CNC),* Orlando Sáenz, former president of the SFF in the early years of the dictatorship, and Manuel Valdés, former vice president of the *Sociedad Nacional de Agricultura* (SNA), held on April 6, 1989, November 16, 1988, January 19, 1989, April 19, 1988, and March 29, 1989, respectively.

44. Arturo Fontaine, *Los economistas y el presidente Pinochet*, 2nd ed. (Santiago: Editorial Zig-Zag, 1988); Hurtado; and Whitehead, "The Adjustment Process in Chile." For agricultural and industrial supports, see *El Campesino* and *Revista Industria*, the industry journals of landowners and manufacturers, respectively.

45. See Valenzuela, "The Military in Power." Although the characterization of Pinochet's regime as one man rule may be oversimplified, he reserved for himself the last word in all matters. While there was a policy process for routine matters, participation in it differed markedly in degree and quality before and after 1983. Silva, *The State and Capital in Chile*.

46. Guillermo Campero, "Entrepreneurs under the Military Regime," in Drake and Jaksić, eds., pp. 128–58.

47. Based on prosopographical data gathered in Santiago between July 1988 and June 1989.

48. Interview with Jorge Fontaine, April 6, 1989.

49. Interview with Pablo Araya, Director of Studies of the Construction Chamber during the period under investigation, May 3, 1989.

50. Eduardo Silva, "Capitalist Coalitions, the State, and Neoliberal Economic Restructuring in Chile, 1973–1988," *World Politics*, 45 (July 1993), 526–59.

51. Confederación de la Producción y Comercio, "Recuperación económica: Análisis y proposiciones" (Santiago: July 1983, mimeo), and related documents presented by member associations. For its genesis, see Campero, *Los gremios empresariales*.

52. The sectoral planning groups of the triennial plan drew heavily from the programs that the individual peak associations had elaborated for the *recuperación económica* program of the CPC.

53. Interviews with Gustavo Ramdohr, president of the Nontraditional Exporters' Association (ASEXMA), August 25, 1988; Manuel Valdés, then president of the SNA, March 21, 1989; Efraín Friedman, SFF, November 16, 1988; Lee Ward, ministry of economy, director of the National Commission for External Commerce, December 13, 1988; minutes of the meetings of the Subcommission for Drawback Legislation, a subcommission of the National Commission for External Commerce; Jaime Palma of the National Commerce Commission, of the ministry of economy; Carlos Recabarren, *Cámara Nacional de Comercio*, January 24, 1989.

54. *La Epoca*, Aug. 18, 1993; Cieplan data base; Teitelboim, *Serie de indicadores económico sociales;* Banco Central de Chile, "Informe económico y financiero al 31 de mayo de 1992," Gerencia de División de Estudios, 1992; Banco Central de Chile, *Boletín Mensual Marzo 1992* (Santiago: República de Chile, 1992).

55. Patricio Rozas and Gustavo Marín, *El mapa de la extrema riqueza: 10 años después* (Santiago: Ediciones América, 1989).

56. *La Epoca*, Aug. 18, 1993.

57. Interviews with Jorge Fontaine, April 6, 1989; Humberto Prieto, executive board of the National Chamber of Commerce (CNC), January 19, 1989; Carlos Recabarren, Director of Studies of the CNC, January 19, 1989; Pedro Lizana, a director of the manufacturer's association, October 25, 1988; Raúl García, executive board of the landowners' association, January 23, 1989.

58. Silva, *The State and Capital in Chile*.

59. Interview with Alejandro Foxley, August 29, 1988.

60. Interview with Pedro Lizana, June 10, 1992. Lizana became president of the SFF a year later.

61. Interviews with Manuel Marfán, architect of the ministry of finance's tax reform strategy, July 7, 1992; and Manuel Feliú, president of the CPU during the transition, June 25, 1992.

62. Interview with Joseph Ramos, labor ministry, July 3, 1992.

63. Interview with Antonio Guzmán, president of the CPC, Santiago, June 16, 1992. Other interviewees—Manuel Feliú, president of Banco Concepción; Pedro Lizana (SFF); Raúl García (SNA); Alfonso Mujica, vice president of the *Cámara Nacional de Comercio*—agreed in interviews conducted between June and July 1992.

64. See Eric Herschberg, "Market-Oriented Development Strategies and State-Society Relations in New Democracies: Lessons from Chile and Spain," in Douglas Chalmers, Scott Martin, and Kerianne Piester, eds., *The New Politics of Inequality in Latin America* (forthcoming).

65. Interview with Joseph Ramos, labor ministry consultant, Santiago, July 3, 1993.

66. See Silva, "Technocrats and Politics in Chile."

67. Interviews with Manuel Marfán, ministry of finance, Joseph Ramos, ministry of labor, Antonio Guzmán, CPC, Pedro Lizana, SFF, Alfonso Mujica, CNC, and Raúl García, SNA, conducted in Santiago between June and July 1992.

68. Interview with Pedro Lizana (SFF), June 10, 1992.

69. *La Epoca*, Aug. 18, 1993.

70. Interviews with José Antonio Guzmán (CPC), Manuel Feliú (Banco Concepción), Pedro Lizana (SFF), Raúl García (SNA), and Alfonso Mujica (CNC), conducted between June and July 1992.

71. As was the case when the *Concertación* contemplated some constitutional amendments that would weaken authoritarian protections for conservatives. These protections were holdovers from the authoritarian constitution of 1980, fashioned under Pinochet, which is still the law of the land.

72. Amsden; Deyo, ed.; Wade.

73. Evans, "The State as Problem and Solution"; and Schneider, "The Career Connection."

74. Önis.

75. The World Bank, *World Development Report, 1991*.